

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

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INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03

USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00

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INFO USINT BAGHDAD

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E.O. 11652: N/A

TAGS: EGEN, EFIN, ENRG, U, IZ

SUBJECT: AMERICAN BANK GROUP FINANCING FOR TURKEY-IRAG
PIPELINE

1. JOHN F. DUNLOP, VICE PRESIDENT, MERRILL LYNCH HOLDINGS, LTD., LONDON, INFORMED EMB THAT HIS GROUP HAS ARRANGED A \$150 MILLION LOAN TO GOVERNMENT OF TURKEY FOR USE IN CONSTRUCTION OF IRAQI-TURKISH CRUDE OIL PIPELINE.

2. DUNLOP SAID LOAN WILL GO TO BOTAS, THE TURKISH PETROLEUM CORPORATION'S (TPAO) WHOLELY OWNED SUBSIDIARY RESPONSIBLE FOR SUPERVISION OF PIPELINE WHICH WILL BE BUILT BY MANNESMANN. MERRILL LYNCH AND FIVE OR SIX PRINCIPAL BANKS WILL RASIE \$80 TO \$100 MILLION OF FUNDS WITH REMAINDER SOLD TO OTHER BANKS. TERMS ARE FIVE YEARS AT 1.5 PERCENT OVER LONDON INTERBANK RATE (ALTHOUGH FEES WILL PUSH EFFECTIVE RATE TO NEAR 1.75 PERCENT)
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WITH REPAYMENT TO START IN 30 MONTHS. DUNLOP SAID MERRILL

LYNCH PREFERRED A PROOJECT LOAN SINCE IT WOULD BE MORE MARKETABLE, BUT GOT, THOUGH IT REFUSED TO SAY SO DIRECTLY, SEEMED TO PREFER A BALANCE OF PAYMENTS LOAN. COMPROMIE WILL BE FOR A "PROJECT-RELATED LOAN," WHICH MEANS MERRILL LYNCH WILL LOAN THE \$150 MILLION DIRECTLY TO BOTAS RATHER THAN HAVE BOTAS CALL FOR MONEY AS NEEDED. BOTAS WILL TURN \$150 MILLION OVER TO CENTRAL BANK.

3. TERMS OF IRAQI-TURKISH PIPELINE AGREEMENT CALL FOR IRAQ TO PAY 35 CENTS PER BARREL OF CRUDE FOR TRANSIT AND TERMINAL FEES. PIPELINE CAPACITY IS 25 MILLION TONS PER YEAR, WITH TURKEY AGREEING TO PURCHASE 10 MILLION TONS PER YEAR FROM 1977-1979, 12 MILLION TONS PER YEAR FRM 1980-1982 AND 14 MILLION TONS PER YEAR FROM 1983 ON. WHILE THE PIPELINE WILL HELP ASSURE TURKEY OF LONG-TERM PETROLEUM SUPPLIES, GOT IS ALREADY TRYING TO RENEGOTIATE TRANSIT FEES. DUNLOP SAID THAT SINCE PROJECT COST ESTIMATES HAVE ALREADY RISEN FROM \$300 MILLION TO \$500 MILLION HIS GROUP DOES NOT BELIEVE THE PIPELINE IS FINANCIALLY VIABLE AT 35 CENTS PER BARREL (OR EVEN AT 38.9 CENTS PER BARREL SINCE DOLLAR/GOLD

RATIO HAS CHANGED SINCE CONTRACT FIRST SIGNED IN 1973). MERRILL LYNCH, HOWEVER, HAS A GOT GUARANTEE FOR REPAYMENT OF THE LOAN.

4. ANOTHER AMERICAN BANKING CONSORTIUM HAD ALSO BEEN ACTIVELY SEEKING BOTAS LEAN. ACCORDING TO BOB SIMPSON, VICE PRESIDENT OF THE CHEMICAL BANK, THIS GROUP OFBANKS HAD OFFERED BOTAS A COMMITMENT OF \$100 MILLION WITH PROMISES TO RAISE \$50 MILLION MORE. CHEMICAL BANK GROUP INCLUDED FIRST NATIONAL CITY, CHASE MANHATTAN, WELLS FARGO, AND BANKERS TRUST. TERMS WERE TO HAVE BEEN SEVEN YEARS AT 1.75 PERCENT OVER LONDON INTERMARKET RATE. SIMPSON WAS SOMEWHAT CHAGRINED TO LOSE OUT TO MERRILL LYNCH (DUNLOP DIDN'T SAY, BUT BOTAS REPORTEDLY TOLD SIMPSON THAT MERRILL LYNCH GROUP INCLUDES MANUFACTURERS HANOVER, BARLAYS, LONDON INVESTMENT BANK, AND A LIBYAN INVESTMENT BANK), BUT SAID HIS GROUP REMAINED INTERESTED IN MAKING PROJECTS LOANS BACKED BY GOT.
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